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**From:**

**Sent:** Tuesday, December 09, 2008 1:55:12 PM

**To:**

**Cc:**

**Subject:** RE: TEFRA (adjustment netting question)

The authority for statement that partnership adjustments from multiple partnerships are netted together at the partner level is found indirectly in the calculation of the underpayment in Treas. Reg. § 1.6664-2. The calculation compares the amount of tax that should have been shown (as defined in the regulations) with the amount of tax actually shown (as defined in the regulations) to determine the underpayment (the difference between the two). The determination of the applicability of the penalty at the partnership level becomes relevant in applying the ordering rules of Treas. Reg. § 1.6664-3. Because the penalty has already been determined to apply, any underpayment attributable to those adjustments will not be subtracted out prior to applying the penalty. Please let me know if you have any additional questions.